

**CORPORATE MANAGEMENT COMMITTEE
2 DECEMBER 2013**

REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

A.3 SPECIAL EXPENSES – ALTERNATIVE OPTIONS

(Report prepared by Richard Bull)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To provide an opportunity for the Committee to examine special expenses, including alternative options and consider any comments or recommendations it wishes to put forward to Cabinet.

EXECUTIVE SUMMARY

- Certain elements of this Council's expenditure is referred to as 'Special Expenses' and are regarded as being chargeable to only certain parts of the district. The rest of the Council's expenditure is regarded as being chargeable over the whole district and is referred to as 'General Expenses'.
- The Local Government Finance Act 1992 requires local authorities to identify special expenses.
- Local authorities have the power to pass a resolution in respect of any particular special expense to the effect that the amount of that expense should be charged across the whole district rather than to one particular area. This is referred to as the contrary resolution.
- At its meeting on the 24 June 2013 the Corporate Management Committee received a presentation entitled "An Overview of Special Expenses". Following the discussion on this presentation the Committee recommended to Cabinet (minute 14 refers):

That Cabinet consider the report and any other information necessary, with a view to abolishing Special Expenses within Tendring.

- Subsequently Cabinet considered this matter on the 6 September and resolved (minute 54 refers): that:

(a) The views of the Corporate Management Committee be taken into account when the re-examination of special expenses, already requested of Officers, was considered as part of the 2014/15 Budget-setting process;

(b) When the report regarding special expenses was produced, it be referred to the Corporate Management Committee for its comment; and

(c) The Corporate Management Committee be requested to consider the implications of special expenses on non-parished areas of the District.

- This report describes the current position on special expenses including the

methodology behind the calculations. It also sets out the advantages and disadvantages of the current process and provides alternative options which are assessed against those advantages and disadvantages.

- The options set out potential changes to the underlying principles behind the special expenses calculations although it is recognised that there could be variations / permutations to each of the options proposed. In addition some options could be combined.

RECOMMENDATION(S)

That the Committee considers special expenses and determines whether it has any comments or recommendations it wishes to put forward to Cabinet in respect of:

- Alternative options to the current method of undertaking special expenses.**
- Implications of special expenses on the non-parished areas of the District**

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The special expenses calculation itself has no impact on the Sustainable Community Strategy or Corporate Plan, although the net expenditure used in the calculation enables the Council to meet its priorities and objectives.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The potential alternatives for calculating special expenses set out in this report neither increase nor decrease the budget spending overall, they nevertheless affect the way that the Council Tax Levies are varied across parts of the district to recognise and recoup the Council's net expenditure that relate to special expenses in that relevant area.

Risk

There are no direct or significant risks associated with the special expenses calculations.

LEGAL

The Local Government Finance Act 1992 requires local authorities to identify special expenses. Under these provisions the estimated cost of those functions would normally be charged to the relevant part of the district.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

Special expenses are based on the principle of ensuring there is equality across the district in levying Council Tax to residents based on services and facilities provided by Town and Parish Councils in specific areas that are also provided by the District Council.

PART 3 – SUPPORTING INFORMATION

CURRENT POSITION

Certain elements of this Council's expenditure is referred to as 'Special Expenses' and are regarded as being chargeable to only certain parts of the district. The rest of the Council's expenditure is regarded as being chargeable over the whole district and is referred to as 'General Expenses'.

In order for expenditure to be a special expense, there are two conditions that must be fulfilled:

- Expenditure is estimated to be incurred by the District Council in the whole or part of its area on the provision of a function;
- Expenditure on the provision of the same function is to be incurred by at least one parish/town council elsewhere in the district.

Local authorities have the power to pass a resolution in respect of any particular special expense to the effect that the amount of that expense should be charged across the whole district rather than to one particular area. This is referred to as the contrary resolution.

In exercising this power the Council also has to consider how the burden of special expenses will be charged to the taxpayers of the district.

Parished & Non-parished Areas

The legislation governing special expenses refers to expenditure being identified to 'part of its area' but no specific definition is provided. Therefore for the purpose of special expenses it is considered that the Council is entitled to treat as a 'part of its area' any part which is not the whole area. A part may be a single parish (or the non-parished area) or a number of parishes, which need not be contiguous, and can be identified without being limited to parish boundaries. Currently parish boundaries have been considered as appropriate areas to meet the requirements of fairness and equality in the levying of special expenses with the non-parished area treated as a single area.

The non-parished area in the current special expenses calculations is the 'Clacton' area. This non-parished area includes specific places such as Great Clacton and Jaywick. However the total special expenses for the 'Clacton' area are equally allocated across all taxpayers in the non-parished area rather than making any further assumptions or allocations at a more detailed level, which would require a significant increase in the level of administration / calculations undertaken.

THE COUNCIL'S CURRENT APPROACH TO SPECIAL EXPENSES INCLUDING ADVANTAGES AND DISADVANTAGES

At present the Council's approach to special expenses requires:

Step 1- Identifying special expenses – each year the Council circulates all the Town and Parish Councils with a list of eligible functions that they have previously indicated they carry out in their area and they are required to update the list with any changes from the previous year. Once these returns have been collated it provides a list of special expense functions.

Step 2 - Calculate the special expenses amount for each area – most of the Council's services relevant to special expenses are not held or budgeted for at parish level and to do so fully would be administratively prohibitive. Therefore the estimated costs are broken down using the best readily available information, in some cases the location of facilities can be used (e.g. community centres) but in many cases it is simply historic cost increased by inflation each year.

Step 3 - Decide the amount of the contrary resolution – in most cases there is little real evidence to calculate the extent to which a particular service is used by residents of an area compared to non-residents. For example the car parks contrary resolution amount has been calculated based on previous usage surveys and for beach hut chalets we know the addresses of the licensees.

In most other cases the split is based on an assessment undertaken when the service first became treated as a special expense. Under open spaces, seafront areas and gardens are treated as a general expense and the non-seafront areas as a special expense. Parts of this calculation are updated each year but historic data is used for the apportionment between seafront and non-seafront.

Step 4 - Calculate the special expenses amount for each area – this is the result of the calculations carried out at Step 3 analysed by area and then adjusted for the effect of the Local Council Tax Support (LCTS) Scheme where the contrary resolution is applied to help offset the impact on special expenses via the tax base.

Appendix A sets out the amounts of special expenses calculated for 2013/14.

Advantages:

- **Perception of fairness** – Special expenses seeks to allocate some of the Council's net expenditure to residents in specific areas rather than across all Council tax payers.
- **Avoids potential issue of double taxation** – It may be considered that if a district council provides a function in one part of the district which is funded through general expenses and a parish provides the same function, the residents of that parish are paying twice for that function (through general expenses and their parish precept).

Disadvantages:

- **Proportionality** – Special expenses is a relatively small percentage of the tax charged by Tendring District Council (8.3%) and a very small percentage of the total Council Tax cost for the area (0.8%). The amount of time involved in calculating special expenses and engaging with the public on this issue might be considered disproportionate given the relatively small amounts involved. As described above there are a number of assumptions and apportionments that need to be made in the calculations and some of the categories of expenditure included in special expenses have relatively small budgets and limited availability of up to data. The Government's recent introduction of the Local Council Support Scheme has made the calculation more complex and time consuming.
- **Council Tax bills do not reflect the headline tax increase** – As special expenses cause a redistribution of tax amounts between different areas the tax increase that appears on individual bills is different to the headline tax increase. This is a source of confusion for many tax payers and results in a significant increase in queries

from the public when Council Tax bills are sent out each year.

- **Transparency** – While most aspects of Council Tax are reasonably well understood by the public, special expenses often cause confusion and even suspicion with some tax payers. The explanation provided on the Council Tax leaflet goes some way towards addressing this but there is often a lack of understanding as to why the Council is allocating only 0.8% of the total Council Tax due (including major preceptors) across specific areas whilst no consideration is given to the remaining 99.2% that is charged across all tax payers.
- **Volatility** – some of the above issues are exacerbated by the natural volatility of the special expenses calculation. The smaller areas are particularly affected, for example, a small increase of £500 in the cost of grounds maintenance in Little Oakley would increase the special expenses for that area by 50%.

POTENTIAL ALTERNATIVE APPROACHES TO THE CALCULATION OF SPECIAL EXPENSES

There are two main methods available of addressing the issue of fairness in the levying of Council Tax, special expenses is one route and paying concurrent functions grants is the other.

Under a system of concurrent functions grants the Council would pay a grant to each parish/town council for the cost of services they undertake which the Council undertakes somewhere else in the district. It is estimated that this option would cost the Council in the region of £600,000 per year, which in the current financial climate would be difficult to implement. Therefore the options below have been developed to explore the various approaches to special expenses as an alternative to concurrent functions grant payments and the Council's current methodology.

The potential alternatives set out below have been considered against the advantages and disadvantages of the Council's current approach. It is also worth considering the impact in the first year that the change would be implemented. The Appendices to this report have all been prepared using 2013/14 budget figures.

Alternative 1 – Pass a contrary resolution for all special expenses

This would mean that all Tendring's Council Tax would be treated as a general expense. All the disadvantages of the present system would be removed. The perception of fairness would also be removed. In the first year of operation (see **Appendix B**) the non-parished area would show a £9.61 reduction in tax while most other areas have increases.

It is worth highlighting that the headline Council Tax amount of £147.64 for 2013/14 would be chargeable to all taxpayers across the district as the general expense.

Alternative 2 – Only charge special expenses in the non-parished area

This option addresses the issue that the residents of the non-parished area do not have to pay a Town/Parish levy therefore paying special expenses will redress that balance and provides a 'blanket' removal of double taxation in Town and Parish areas. However it could be is not the purpose of the special expenses process to charge non-parished areas a special expense to balance out for not having to pay a parish/town levy and could be argued that it is a disproportionate way of avoiding the potential for double taxation. Due to

the increase in general expenses under this option most areas of the district (except for Harwich and Frinton & Walton) show a tax increase (see **Appendix C**) in the first year of operation.

Alternative 3 – Exclude minor items from the calculation

Many of the categories of expenditure shown under special expenses are relatively minor (two of the categories of expenditure account for more than 90% of the total, the other nine accounting for less than 10%). Within the 10% there are some relatively small amounts e.g. £280 estimated to be spent on Open Spaces in St Osyth. This alternative seeks to reflect a level of proportionality by excluding all categories of expenditure below a de-minimis amount. The de-minimis amount selected could range from quite a low figure to a relatively high figure but for the purposes of arriving at a fair compromise or balance, a figure of £25,000 has been used along with also taking into account all apportionments to individual areas that are less than £1,000. This considerably cuts down the amount of calculations required to determine special expenses and more importantly provides additional stability in the special expenses calculation which it is hoped over time may result in the headline council tax increase for the year being better reflected in household Council Tax bills.

Despite the significant reduction in effort required to produce special expenses under this alternative it only reduces the total of special expense by 7.5% (from £522,500 to £483,220) therefore much of the value and advantages of the existing system are retained (see **Appendix D(i)**). In addition it would mean that special expenses would only now apply to Clacton, Frinton & Walton, Harwich, Manningtree and Lawford so this avoids much of the volatility in the system where relatively minor changes on parishes with low tax bases are subject to significant percentage changes. The impact of implementation is also relatively minor (see **Appendix D(ii)**).

It is worth noting that the year on year variations under the current system are sometimes more significant than the effect of implementing this alternative in 2014/15.

Alternative 4 – Amalgamation of areas for the special expenses calculation

Although special expenses are currently identified at parish level this is not a legislative requirement. The Council is free to choose the areas to which it applies special expenses. There are a range of permutations that could be selected under this option. However for the purposes of arriving at a fair compromise and balance this option has been based on the creation of the following five 'special expenses' areas:

Clacton and surrounding area – this takes in St Osyth and Little Clacton
 Frinton & Walton and Thorpe
 Harwich and surrounding area – this takes in Ramsey & Parkeston and Little Oakley
 Brightlingsea, Alresford and Thorrington
 North-West Tendring – the remaining parishes

The advantage of this alternative is that by consolidating areas it reduces the volatility in the process and it recognises that taxpayers in some areas may use facilities in nearby areas. This option is likely to be time consuming and complex to calculate so it still has some of the disadvantages of the current system.

Under this alternative all residents would now pay special expenses (although some relatively minor) and parishes near the urban centres would see more significant increases

(see **Appendix E**).

Summary

In summary the calculation of special expenses as an alternative to paying concurrent functions grants is inherently time consuming and complex.

- Option 1 provides for the most significant departure from the approach the Council currently adopts.
- When reflecting on the advantages of the Council's current approach it could be argued that in terms of fairness and avoiding double taxation options 3 and 4 would better maintain these underlying principles
- Option 3 would provide for the least significant departure from the calculations currently undertaken.
- Options 1, 2 and 3 would significantly reduce the administrative burden of special expenses
- All alternative options would reduce the level of volatility in the level of special expenses charged each year.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Appendix A –Special Expenses by Area 2013/14

Appendix B - Alternative 1 – Pass a contrary resolution for all special expenses

Appendix C - Alternative 2 – Only charge special expenses in the non-parished area

Appendix D - Alternative 3 – Exclude minor items from the calculation

Appendix E - Alternative 4 – Amalgamation of areas for the special expenses calculation